ARTHUR GRACE—SYGMA

Long line outside Moscow state shop symbolizes an economy of scarcity.

J. P. LAFFONT—SYGMA

Butcher shop in Poland with no meat—a common sight in Soviet bloc.

Communism

The Great Economic Failure

Permanent austerity, slothful workers, unhappy masses—the reality is far from the dream. And worse still may lie ahead.

For the 1.5 billion inhabitants of the Communist world, the Marxist promise of a workers' paradise has turned into a nightmare of permanent scarcity, economic stagnation and discontent.

Poland's economic disaster, which spawned a now aborted revolt by disillusioned workers, is the most dramatic symptom of a wider crisis gripping the Soviet Union and a dozen other nations that copied its economic system.

In Russia itself, 65 years after the revolution, the masses of people still must queue for hours, not just for luxuries but even for meat. Grim as they are, living standards in the U.S.S.R. and much of Eastern Europe are expected to deteriorate. Economic growth rates, impressive in the '50s and '60s, are sliding to near zero levels. Officially regulated prices are skyrocketing—up by as much as 400 percent for foodstuffs in Poland.

Intensifying the pressure on supplies and costs in Russia is the fact that a worker produces only half the goods and services turned out by his American counterpart. The economic squeeze is likely to be increased by the loss of easy access to Western loans that have been used to import technology and industrial equipment. Banks in the West have provided an 80-billion-dollar crutch for limping Soviet-bloc economies—surpassing the Marshall Plan aid that helped to rebuild Western Europe after World War II.

Not just money and technology have been imported from the West on a lavish scale. Features of the free-market system increasingly have been copied by a number of Eastern European countries as well as by China in an effort to escape from the crippling vise of Soviet-style "command economies." The Soviet-bloc states that are doing best have reformed the most.

Economists stress that the crisis in the Communist world differs fundamentally from the recession plaguing the West today. The slump in the U.S. and Europe is seen as cyclical, with the prospect of recovery over the next year. By contrast, the economic crisis in the Soviet bloc stems from structural problems within the system itself and is expected to persist—perhaps even worsen—unless basic reforms are introduced.

The Soviet system, as it operates now, has what many economists see as formidable built-in obstacles to progress. A central planning group—Gosplan—sets wages, prices and production goals and allocates resources more on a political than economic basis. The first objective for an industrial manager is to persuade the planners to set low targets that can be easily achieved and win rewards rather than press for higher output.

Also: With prices set arbitrarily, planners cannot tell whether their decisions will produce a balance of supply and demand. Shortages crop up suddenly, and the system is too rigid to adjust. Finally: Workers and managers have no incentive to work hard since laborers rarely get fired and there are few material rewards for greater efficiency.

To examine the fate of the Marxist economic experiment and the prospects for revitalizing the system, staff members of *U.S.News & World Report* talked to experts in this country and abroad and conducted on-the-spot inquiries in major Communist countries. This is what they found:

The Soviet Economy—Shackled by Inertia

Despite its standing as one of the world's two superpowers, the Soviet Union provides its populace with one of the lowest living standards among industrial nations. Although the U.S.S.R. has a vast store of natural resources, economic growth has slowed dramatically from the sharp upward trends of the '50s and '60s. The increase in the national product, according to one authoritative study, is now crawling along at 1.2 percent a year.

Nicholas Daniloff, the magazine's correspondent in Moscow, reports: "The fact that the Soviet economy is an economy of scarcity is underlined by long lines at stores, black marketeering, bribe giving and bribe taking—and the government's new harsh campaign to stamp out speculation and corruption."

Especially grim is the situation in Soviet agriculture. For the third year in a row, Russia has suffered a major crop

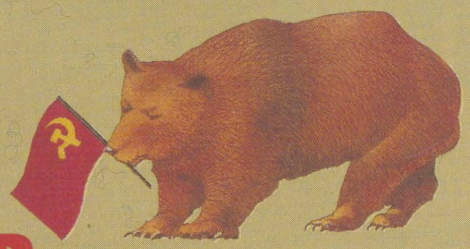
failure. As a result, says Marshall Goldman, associate director of the Russian Research Center at Harvard, "the Soviet Union finds itself with a disaster of unprecedented magnitude on its hands."

Adverse weather is a factor, but basically the disaster stems from the monumental inefficiency of the Soviet system of collectivized agriculture.

Almost a quarter of the Soviet workers are in agriculture, and they still can't feed the nation. By contrast, only 3 percent of the American labor force is engaged in farming and produces vast surpluses. Each U.S. farm worker feeds 60 Americans; each U.S.S.R. farmer feeds only eight Russians.

Ironically, the only bright spot in this bleak picture of Soviet agriculture is the island of free enterprise in the

U.S. vs. U.S.S.R.



A comparison

PICTOGRAM®

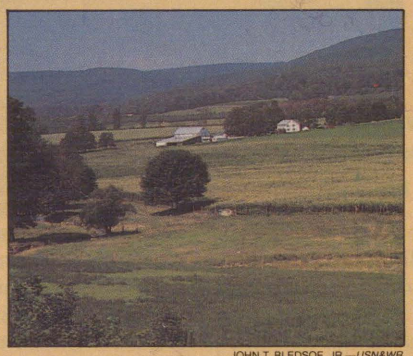
Total Output

U.S.	$2.9 tril.
U.S.S.R.	$1.4 tril.

JOHN T. BLEDSOE, JR.—*USN&WR*

Land Area
(square miles)

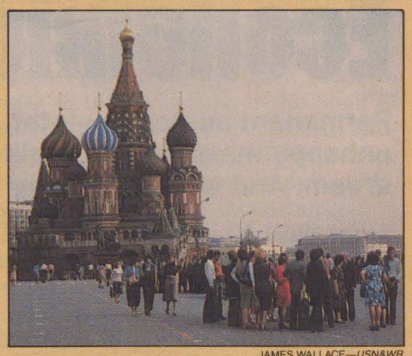
U.S.	3.6 mil.
U.S.S.R.	8.6 mil.



JOHN T. BLEDSOE, JR.—*USN&WR*

Population

U.S.	230 mil.
U.S.S.R.	268 mil.



JAMES WALLACE—*USN&WR*

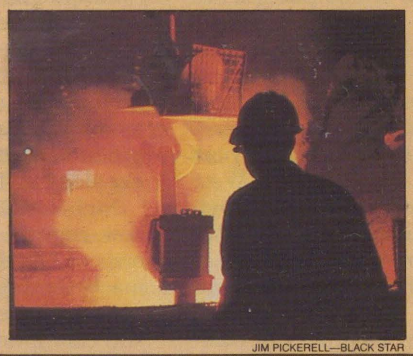
Oil
(barrels produced per day)

U.S.	8.57 mil.
U.S.S.R.	12.18 mil.

JOSEPH BENHAM—*USN&WR*

Steel
(production in metric tons)

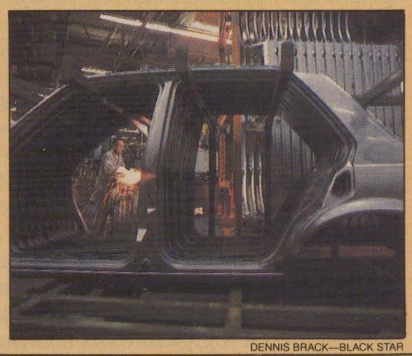
U.S.	100.8 mil.
U.S.S.R.	148.0 mil.



JIM PICKERELL—BLACK STAR

Autos
(production)

U.S.	6.4 mil.
U.S.S.R.	1.3 mil.



DENNIS BRACK—BLACK STAR

otherwise collectivized society: The tiny private plots that workers on collective and state farms are allowed to cultivate—occupying less than 2 percent of the farmland but producing one third of the total meat-and-vegetable output.

The recurrent agriculture disasters multiply Russia's industrial troubles. To pay for imports of grain to feed its people, the Kremlin was compelled to sell 224 tons of gold abroad in 1981. This impedes the drive to modernize Soviet factories by limiting funds available to buy Western technology.

However much they value technology developed in the West, the Russians resolutely reject any notion of importing any of the features of the free-enterprise system that spawns the advanced technology. Kremlin leaders even spurn suggestions that the small slice of private enterprise permitted to farmers be extended to repair services, restaurants and small shops. The central management of virtually every aspect of Soviet work seems firmly entrenched and stands out as a fundamental reason for the country's economic malaise. Says one Western expert based in Moscow: "They will tinker, but that's all they will do."

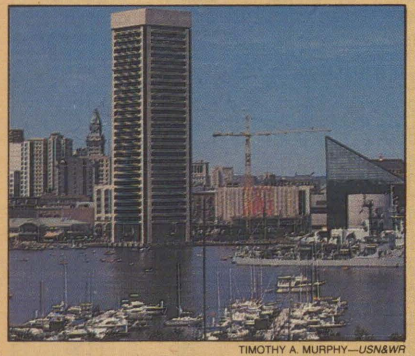
Compounding the problems is the fact that the people seem to have lost whatever incentive they had to work hard. Industriousness seems to have disappeared because the incentive of private gain has been banned. Ideological jawboning—exhortations to avoid waste and work harder—no longer has much effect.

Soviet officialdom makes no secret of its concern. Radio Moscow recently compared the Tolyatti plant, built by Fiat on the Volga River, and the Daimler-Benz plant in West Germany. The broadcast complained that Soviet output

of world's two largest economies—

Urbanization
(percentage living in urban areas)

U.S.	73%
U.S.S.R.	65%



TIMOTHY A. MURPHY—*USN&WR*

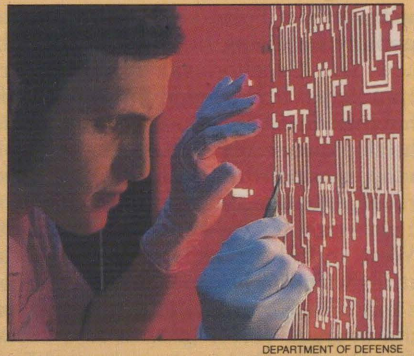
Energy Use Per Person
(equivalent of metric tons of coal)

U.S.	12.4
U.S.S.R.	6.1

TIMOTHY A. MURPHY—*USN&WR*

Computers
(value of general-purpose computer mainframes, end of 1980)

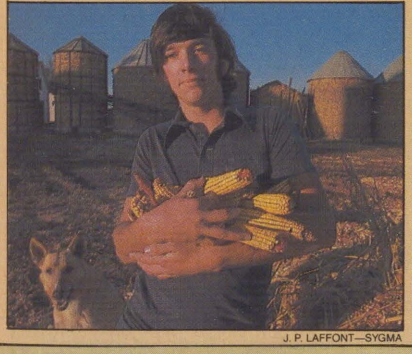
U.S.	$58.2 bil.
U.S.S.R.	$9.2 bil. (est.)



DEPARTMENT OF DEFENSE

Farm Workers
(as percentage of total work force)

U.S.	3%
U.S.S.R.	24%



J. P. LAFFONT—SYGMA

Meat Produced Per Person

U.S.	256 lb.
U.S.S.R.	126 lb.

WARREN K. LEFFLER—*USN&WR*

Grain Produced Per Person

U.S.	2,552 lb.
U.S.S.R.	1,571 lb.

WARREN K. LEFFLER—*USN&WR*

Note: Figures are for latest year available from both countries—usually 1980.

USN&WR charts by Carl Vansag—Basic data: U.S. government and industry sources

lags far behind in quantity and quality because of chronic absenteeism and extended tea breaks.

Aside from the inefficiencies of the system itself, what virtually rules out the prospect of a better life for the Russian people is the massive diversion of resources to the military. America's investment in defense, even with the increases now proposed, is modest by comparison. Although the Soviet economy is about half that of the U.S., the Russians devote 12 to 14 percent of total output to the military, compared with 6 percent in the United States. The defense establishment not only has first call on material resources but also on the best engineers and scientists.

On top of the military burden is the cost of preserving the Russian empire, which further drains scarce resources at the expense of the Soviet consumer. The U.S. Defense Intelligence Agency estimates that Soviet aid of all kinds to other Communist regimes soared from about 2 billion dollars in 1971 to nearly 24 billion in 1980.

The goal of a world converted to Communism is a pillar of Kremlin doctrine. But foreign aid, particularly goods shipped to Eastern Europe, is a source of bitterness to the Russian worker. He grumbles that the Eastern Europeans already are better off than he is—and he is right.

Eastern Europe—on a Risky Road to Reform

Nowhere is the search to break out of the Communist economic straitjacket more evident and risky than in Eastern Europe, where 109 million people in six countries have struggled under a Kremlin economic system imposed by Soviet might after World War II. The satellite states have little room to maneuver.

The tragedy of Poland today is cited as an object lesson of the penalty for going beyond the strict limits imposed by Moscow. Still, Czechoslovak economist Jaroslav Vejvoda admits publicly: "It is becoming clear that for a full 30 years we have been unable to solve problems associated with production under socialism, either in theory or in practice."

Today, most of the Soviet-bloc countries of Eastern Europe face economic stagnation, with growing shortages of basic materials, a hard-currency debt of 60 billion dollars to the West and dim prospects for the future. But even the countries with the best performance records, such as Hungary and East Germany, are now in serious trouble. Over all, the average yearly growth rate of Communist economies in Eastern Europe has plunged from 5.7 percent in 1976 to 1.2 percent in 1980, according to the International Monetary Fund. And an even worse slump is predicted in the period ahead.

A Communist Party newspaper in Czechoslovakia recently admitted: "It is no use covering it up. The economic situation today is much worse than five or 10 years ago. We have to make rapid adjustments or the whole system will be seriously threatened."

Government-ordered price increases make inflation in the U.S. look like stability. Romania on February 15 ordered price hikes on basic food products and cigarettes by an average of 35 percent. Meat prices went up 64 percent. Czechoslovakia just raised meat prices 137 percent. Poland on February 1 jumped the cost of foodstuffs between 200 and 400 percent.

Why the sharp economic deterioration throughout Eastern Europe? The Polish crisis is one factor—but by no means the most important one. Shortages of food, coal, sulfur and industrial goods have been aggravated through much of the Soviet bloc, which depended on Poland as a major supplier. But the crisis also has made Western banks much more cautious about financing East-West trade. Many analysts think that a cutoff of hard-currency loans would confront Eastern Europe with a real economic disaster.

Even before the Polish crisis, it was becoming evident that Eastern Europe's economic game plan was failing. Alfred Zanker, the magazine's European Economic Editor, reports that the strategy has been to borrow from Western banks to purchase advanced technology from the West. New plants and equipment were supposed to produce goods, such as typewriters, that could be exported to pay off the Western debt.

The hitch is that exports to the West have not increased enough to ease the debt because of the poor quality of their products or other shortcomings.

In an effort to bail out its Eastern European empire, the Soviet Union has been buying the inferior made-for-export goods from satellite nations and selling them oil at cut-rate prices. For example, Poland in 1980 bought Soviet oil at about 46 percent of the world dollar price.

But this year the Russians, themselves caught in a worsening squeeze, are refusing to increase oil shipments to the Eastern Europeans. The Soviets are committed to send oil at the 1980 level for the next five years, which actually means a sharp cut from 1981 levels and not enough for economic expansion. Furthermore, the oil is now being provided at near the world price, which adds greatly to the

Two Europes—Which Produces the Most?

	Total Output Per Person	Economic Growth 1980 vs. 1979	Energy Use Per Person (U.S.=100)	Proportion of Workers in Farming
WESTERN EUROPE				
Austria	$10,250	Up 3.1%	42	9%
Belgium	$11,800	Up 2.5%	55	3%
Britain	$ 9,400	Down 1.8%	46	2%
Denmark	$13,000	Down 0.2%	48	7%
Finland	$10,450	Up 5.0%	51	12%
France	$12,150	Up 1.2%	40	9%
West Germany	$13,350	Up 1.8%	54	4%
Greece	$ 4,200	Up 1.7%	23	38%
Ireland	$ 5,400	Up 1.9%	31	19%
Italy	$ 6,900	Up 4.0%	28	11%
Luxembourg	$13,000	Up 0.6%	*	*
Netherlands	$11,850	Up 0.5%	55	6%
Norway	$14,000	Up 3.8%	97	8%
Portugal	$ 2,450	Up 5.5%	12	25%
Spain	$ 5,700	Up 1.5%	23	15%
Sweden	$14,750	Up 1.4%	69	5%
Switzerland	$15,850	Up 4.4%	42	5%
Average	**$10,000**	**Up 1.5%**	**41**	**9%**
EASTERN EUROPE				
Bulgaria	$ 4,500	Down 0.3%	44	38%
Czechoslovakia	$ 7,650	Up 2.0%	55	11%
East Germany	$ 8,100	Up 2.6%	71	10%
Hungary	$ 4,950	Up 0.2%	33	16%
Poland	$ 4,650	Down 2.7%	47	31%
Romania	$ 5,250	Up 1.0%	39	33%
Average	**$ 5,700**	**Up 0.4%**	**49**	**25%**

Thus, on average, Western Europe outproduces Eastern Europe almost 2 to 1.

*Not available.

Note: Output per person is for 1980—latest available.

USN&WR—Basic data: Central Intelligence Agency, World Bank, International Monetary Fund, Organization for Economic Cooperation and Development, Population Reference Bureau, Inc.

drag on Eastern European economies. The result, say some economists, could be to push Eastern Europe to the brink of an economic calamity. A new study by the Central Intelligence Agency says that the cutback would virtually wipe out even the modest growth predicted this year. Czechoslovakia's annual growth rate would drop to 0.3 percent, and even in Hungary, the most buoyant of the Eastern European states, the rate would slide to 0.7 percent, a reduction of two thirds from the projected 1982 rate.

Damaging as the external setbacks have been, economists stress that the most basic problem in Eastern Europe is a fatal flaw in the system—the lack of incentives. Lester Thurow, economics professor at the Massachusetts Institute of Technology, points out that because of shortages there are few material rewards for hard work. Thus, the worker has no incentive to labor productively. Production falls, and stores end up with even fewer goods.

There also is little incentive for managers to experiment. Charles H. Movit of Wharton Econometrics notes that the system gives the greatest reward to managers who year after year overfulfill their production quotas by only 1 percent. A new approach that might improve production by 10 percent is not worth the risk.

In efforts to shake loose from this straitjacket, several of the Soviet-bloc countries are adopting Western-style incentive systems. Stewart Powell, the magazine's London-based correspondent who has traveled widely in Eastern Europe, reports that East Germany, for instance, offers bonuses, longer vacations and a shorter workweek for more productive workers. Also, 247,000 of the country's 8 million workers now are engaged in private enterprises in areas such as meat processing, building maintenance and retail trade.

Even so, East Germans seem dissatisfied. A major reason: Nightly they see on West German television what they lack in their own stores.

The most satisfied consumers in Eastern Europe are in Hungary and Bulgaria, primarily because those two countries have junked as much of the Kremlin model as they think they can get away with. Hungary already is so tied to Western economies, correspondent Powell reports, that were a trade embargo clamped on, half of Hungary's factories would be forced to close within 90 days because of lack of key components for finished products.

Experimentation with free-market concepts in Hungary, East Germany and Bulgaria is tolerated by the Kremlin, because, unlike in Poland, the political power of the Communist Party is in no way being challenged.

China—Taking the Leap to Freer Enterprise

All of the changes in European Communist countries are dwarfed by China's rush to embrace free-market practices. Reports James Wallace, the magazine's Asia correspondent: "Emphasis now is on productivity rather than equality, on pragmatism instead of ideology. Incentives such as bonuses and higher wages are replacing political exhortation. Profits are not only permitted; they are demanded by government leaders."

The reforms reflect Peking's acknowledgment of failure of its past economic policies, among the most doctrinaire in the Communist world. In its far-reaching effort to overhaul the economy, the Chinese government no longer assigns all workers to government jobs at fixed pay, under orders to fill production quotas set by central planners. It is encouraging free enterprise by offering tax exemptions and low-interest loans to the self-employed. Of the 40 million Chinese entering the job market each year, more than 2 million will end up working for themselves or for privately financed groups, mostly collectives.

The biggest departure is the planned reorganization of

JAMES WALLACE—USN&WR

Street vendors are a growing form of Western-style free enterprise in Communist China's cities.

industry. As in Western economies, the bottom line—profits or losses—will become the major factor. Each enterprise will pay to the state part of its profits, an amount roughly comparable to corporate taxes in the West. The rest will be used for higher wages, expansion or whatever the enterprise itself decides.

Furthermore, China's Communist leaders are offering new incentives in an effort to attract increased foreign investment. To reassure Westerners, they have introduced tax and other laws regulating foreign investments, joint ventures and co-production agreements. So far, such investment amounts to less than 1 billion dollars. Several Chinese provinces are competing to attract foreign business, much as American states do, with favorable tax rates, low-cost land and labor.

Such radical changes are not being made without a fight. Correspondent Wallace reports: "The most fundamental objection comes from Communist Party stalwarts who fear loosening economic controls will destroy firm central political control vital to any Communist system. So far, however, the reformers are winning. But they could be undone if the reforms do not produce quick, visible results."

Not only has the Kremlin model fallen flat in the more industrialized countries, but it also has proved to be a failure in the underdeveloped areas. Mozambique and Ethiopia, in Africa, are the most recent to embrace the Kremlin economic model as a fast way to prosperity through industrialization. They are both impoverished. Vietnam remains viable only with substantial subsidies from the Kremlin. Cuba needs billions in Russian aid to stay afloat.

The two Koreas provide a striking example of the difference the free-enterprise system can make. South Korea has one of the new miracle economies of the world, with a growth rate last year of more than 14 percent. Communist North Korea, with one fourth the output of the South, uses half its work force to feed its people, compared with little more than one third in South Korea.

All in all, the Communist economies of the world are at a crossroads. Central planning and collective agriculture appear to be failures. While still rejected by Russia as a threat to Communist Party political control, a switch to Western-style free markets and individual incentives is taking place in China and several Eastern European countries. Russia's willingness to join this trend and allow its satellites to go far enough with reforms could well determine whether the decline continues inexorably in the Soviet bloc or whether the slide can be reversed. □

By DAVID L. BARNETT with the magazine's foreign bureaus